



# Why did the average duration of unemployment become so much longer?

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## ABSTRACT

There has been a substantial increase in the average duration of unemployment relative to the unemployment rate in the U.S. over the last 30 years. We evaluate the performance of a standard job-search model in explaining this phenomenon. In particular, we examine whether the increase in within-group wage inequality and the decline in the incidence of unemployment can account for the increase in unemployment duration. The results indicate that these two changes can explain a significant part of the increase over the last 30 years, although the model fails to match the behavior of unemployment duration during 1980s.

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## 1. Introduction

Average unemployment duration and the unemployment rate generally move together; however, recent data indicate that this relationship is changing in the United States. Fig. 1 shows the U.S. unemployment rate (left scale) and average unemployment duration (right scale) from 1948 to 2003.<sup>1</sup> Although they track each other closely from 1948 to 1990, we observe a clear break in this pattern during recent years. Specifically, the U.S. unemployment rate declined dramatically over the past 20 years, while average unemployment duration remained high through the 1990s. There are other studies that document the increase in the average duration of unemployment. Juhn et al. (1991, 2002) Baumol and Wolff (1998), Valletta (1998, 2005), Abraham and Shimer (2001), and Machado et al. (2006) all point out that unemployment duration has become longer in recent years, despite low levels of unemployment.<sup>2</sup>

This pattern is more apparent if we look at the trends of the unemployment duration and unemployment rate. Fig. 2 compares the Hodrick–Prescott (HP) trend of the two series.<sup>3</sup> Casual observation of Fig. 2 suggests that the difference between the trends has been particularly pronounced in recent years.<sup>4</sup> The U.S. unemployment rate declined dramatically over the past 20 years, while average unemployment duration remained high through the 1990s.

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<sup>1</sup> The data in this paper are taken from Bureau of Labor Statistics (BLS) website, <http://www.bls.gov>, except where noted otherwise.

<sup>2</sup> Appendix A of Mukoyama and Şahin (2008) discusses the related literature in detail.

<sup>3</sup> For HP-filtering, we use the smoothing parameter  $\lambda = 6.25$  for yearly data following Ravn and Uhlig's (2002) suggestion.

<sup>4</sup> In Appendix B of Mukoyama and Şahin (2008), we show that the cyclical components of both series track each other very well, even in recent years.

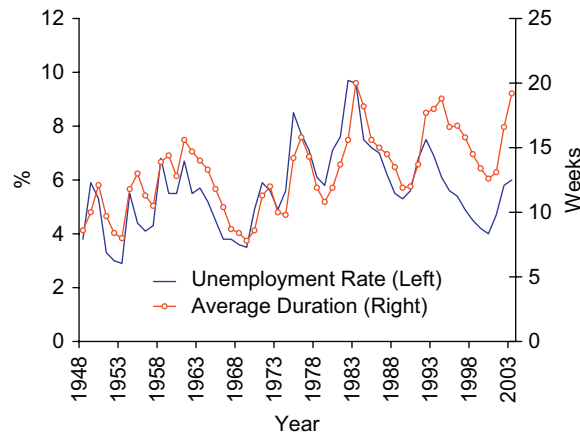


Fig. 1. Unemployment rate (left scale) and average unemployment duration (right scale). Data source: Current Population Survey.

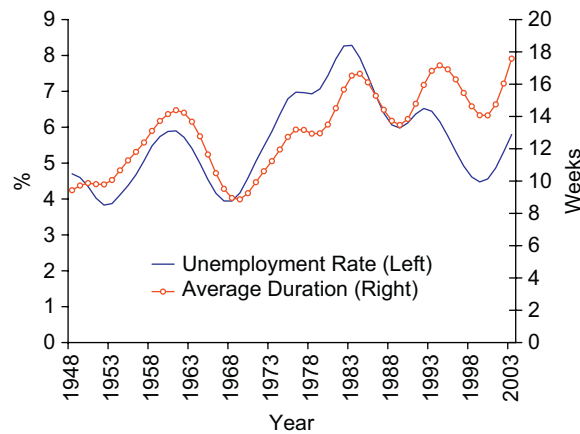


Fig. 2. Trends of unemployment rate (left scale) and average unemployment duration (right scale). Data source: Current Population Survey.

Fig. 2 indicates that the increase in the average duration occurred around 1980.<sup>5</sup> The average value from 1971 to 1980 is 11.5 weeks, while the average after 1981 is 15.5 weeks. Therefore, there has been an increase of about 4.0 weeks after the break.<sup>6</sup>

We investigate the economic reasons behind the increase in unemployment duration. In particular, we evaluate the performance of the standard job search model in explaining this phenomenon. We first document the two prominent changes in the U.S. labor market that took place recently: the increase in wage dispersion and the decline in the incidence of unemployment. We quantitatively examine how these changes affect unemployed workers' job-search behavior. We argue that these two changes can explain a significant part of the increase in unemployment duration in the last 30 years. However, the model fails to match the behavior of unemployment duration during the 1980s. We conduct some robustness analyses and discuss the generality of our results. Lastly, we examine the link between unemployment duration and the dispersion of wages at a more disaggregated level.

Juhn et al. (1991) are among the first to point out that the duration of unemployment has been increasing during the recent years. They emphasize the labor-supply response to the change in the wage level. Their work can be considered complementary to ours, which emphasizes the change in wage dispersion. In her comments to Juhn et al. (1991), Yellen (1991) argues that:

When there is wage dispersion, so that both good and bad jobs are available for workers with given skills, some workers will choose to remain unemployed, searching for good, rent-paying jobs, rather than work at the poor jobs that are readily available... The long-term unemployed are searching for work for which they are qualified. In this

<sup>5</sup> In Appendix B of Mukoyama and Şahin (2008), we identify the break more formally and reach a similar conclusion.

<sup>6</sup> Unemployment duration increased from 13.5 weeks (from 1971 to 1980) to 16.9 weeks (from 1981 to 2002) for males and it increased from 10.7 weeks (from 1971 to 1980) to 13.5 weeks (from 1981 to 2002) for females.

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